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Contents

Briefs and Comments

Special Analysis

[redacted]

25X1

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BRIEFS AND COMMENTS 25X1

NATO: Foreign Ministers' Meeting

//NATO foreign ministers meeting in The Hague today and tomorrow will focus on the final provisions of the SALT II treaty. The West Europeans are likely to inquire about the Senate ratification debate and will want to be briefed on plans for the US-USSR summit.// [redacted] 25X1

//The ministers will want to discuss US plans for bringing up the Mutual and Balanced Force Reduction talks at the summit, and consider any new proposals that might be put forward. The West Europeans continue to react cautiously to recent Soviet bilateral approaches to the US on MBFR. The allies will reaffirm the West's intention to maintain its position on force data and to keep putting pressure on the East. They will also reemphasize the importance of collective reductions by NATO and the Warsaw Pact.// [redacted] 25X1

//France's dissatisfaction with the references to theater nuclear force modernization and arms control in the draft ministerial communique could spark a heated debate. Since France does not participate in the military business of the Alliance, it objects in principle to the foreign ministers discussing subjects it regards as military. The West Germans, British, and Italians see the communique as an important opportunity to demonstrate the importance NATO attaches to theater nuclear matters.// [redacted]

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//The French are pushing language that the other allies fear will seem to endorse a recent Warsaw Pact proposal, on a European Disarmament Conference, rather than the conference France wants to convene. The French also disagree with paragraphs in the draft communique about the Egyptian-Israeli peace treaty. Paris seeks a statement in the communique supporting a Palestinian homeland.// [redacted]

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//The allies will also discuss military and economic aid to Turkey, Greece, and Portugal. These three economically troubled countries will be seeking firm commitments on additional aid from the Alliance, but such help is unlikely.// [redacted]

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[redacted] 25X1

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DOMINICA: Government Threatened by Labor Unrest

//After only seven months of independence from the UK, the eastern Caribbean island of Dominica is facing serious labor unrest that could topple Prime Minister Patrick John. The violent demonstrations yesterday apparently were organized by moderate groups favoring a new government, but continued instability--which now seems likely--will benefit a small group of pro-Cuban leftists.//

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//Rioting yesterday resulted in at least one death and seven serious injuries from police gunfire as protesters tried to prevent John from pushing through the House of Assembly two bills limiting labor activities. John, whose government is near bankruptcy, was attempting to block a prolonged strike by the powerful Civil Service Union--which brought the government to its knees in 1977 after a costly 47-day strike.//

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Since independence, Dominica's predominantly black, impoverished population of 80,000 has been confronted by severe economic problems, and the country faces a growing potential for political instability. John has not been able to halt declining production in the agriculture-based economy, increasing trade deficits, and sharply rising unemployment--now about 30 percent of the labor force--that has hit the island's restive young people particularly hard. If John is forced to call elections, we doubt that a new moderate government formed by the present poorly organized opposition party would fare much better. A small group of pro-Cuban radicals, however, will continue to make gains among the island's youth, who are becoming increasingly alienated from both major parties.

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The trouble in Dominica, on the heels of the coup in Grenada in March, will intensify the concern of other governments in the eastern Caribbean, most of which have similar problems. Although such instability is in Cuba's interest, we have no evidence of Cuban involvement in the Dominican unrest.

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THAILAND: New Government

Prime Minister Kriangsak's new government is off to a rocky start. A month after the election of 22 April, Kriangsak finally succeeded in putting together a cabinet, but it is a stale collection of old faces, minor politicians, and senior military officers without any genuine reflection of the civilian political forces that have returned to the scene. Public reaction to the new ministers has been generally negative, and there already is speculation that the cabinet will be reshuffled within the next two or three months. [redacted] 25X1

None of the four major political parties is represented. Although Kriangsak reportedly tried to entice some well-known civilian political figures into the cabinet, he apparently was unwilling to make the compromises they demanded. The civilians may have been hesitant to join a government they see as faltering; they may believe their interests are better served by waiting for Kriangsak to stumble. [redacted] 25X1

The Economic and Foreign Affairs portfolios are particularly weak. The Prime Minister holds two key ministries--Finance and Agriculture--making him that much more vulnerable should he be ineffective in handling Thailand's serious economic problems. To general dismay, Kriangsak has carried over the ineffectual Foreign Minister. Kriangsak has dominated foreign policy, however, and he probably is comfortable with a loyal [redacted] holding the Foreign Affairs portfolio. [redacted] 25X1 25X6

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TURKEY: New Foreign Investment Law

Ankara has drafted a new foreign investment law that is intended to help Turkey attract $1.2 billion in foreign private capital over the next five years. Obstacles to investment, however, including a hostile bureaucracy, excessive red tape, an overvalued currency, a foreign exchange shortage, and domestic political turmoil, are certain to undermine the new code. Investment by foreign firms has played a minor role in Turkey's development. Foreign investment is most important in Turkey's petroleum refining; over the past few years, however, foreign oil firms have begun to reduce their involvement.

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SPECIAL ANALYSIS

LESS DEVELOPED COUNTRIES: Impact of Higher Oil Prices

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The economic outlook for the less developed countries--not including those who are members of the Organization of Petroleum Exporting countries--is considerably less favorable than in 1978. With the decline in the economic growth rates of the developed countries, continued OPEC restraint in development spending and aid, and, most importantly, the prospect of tighter oil supplies and higher oil prices, the non-OPEC developing countries face slower real growth, the return of higher inflation, and sharp deterioration in their current accounts. Increases in debt service for high- and middle-income developing countries in 1978 and 1979 add to the less favorable outlook. [redacted] 25X1

Events in oil markets this year have considerably complicated development planning and economic management for the non-OPEC developing countries. Those relying on Iranian oil production have had to scramble to find new sources while others have had to cope with disruptions in their petroleum supplies caused by the impact of Iranian shortfalls on the global distribution system. Many have had to purchase oil on the spot market to meet immediate needs. [redacted] 25X1

Non-OPEC developing countries may be able to control the growth of their needs for crude oil and petroleum products. Following the price increases in 1973 and 1974, they managed to hold the annual growth in their oil consumption to about 6 percent. This time, supply constraints probably will force them to freeze the net volume of imports and to reallocate oil from private to industrial uses. [redacted]

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Even with conservation efforts, however, the decline in economic growth rates in developed and OPEC countries will present serious current account problems for the non-OPEC developing countries. Continued growth in imports of intermediate goods, expected slumps in commodity prices in the second half, and rising service payments by themselves would cause a substantial widening in the non-OPEC current account deficit this year from last year's $28 billion to about $32 billion. [redacted] 25X1

The picture worsens considerably when the impact of oil price hikes is taken into account. If we assume that the 24-percent increase implemented thus far this year will hold through the end of 1979, the further oil-induced deterioration of the trade deficit for the non-OPEC group would amount to $5 billion. This includes an increase of $1.6 billion in the net oil import bill and $3.4 billion in indirect costs incurred through shortfalls in export earnings and larger non-oil import bills. The current account result would be a deficit of $37 billion. [redacted] 25X1

If we assume a further 10-percent or so rise in oil prices for the second half of the year, the oil-related increase in the trade deficit would then be close to $6 billion, edging the current account deficit toward $40 billion. About $2 billion would come from the increases in the net oil import bill, with the rest accruing from the indirect costs. [redacted] 25X1

Growth and Inflation

The outlook this year for real growth among non-OPEC developing countries--including oil-rich Mexico--is 5 percent. Last year--and over the longer term--the rate has been closer to 5.5 percent. While this overall deceleration is not that awesome, it masks situations in individual countries--especially in Central America and sub-Saharan Africa--that are considerably worse. [redacted] 25X1

The impact of oil prices on inflation in non-OPEC developing countries has been even more striking than the impact on growth. The oil crisis was the main factor in boosting the group's average rate of price increase from a range of 10 to 30 percent in the 1950s and 1960s to a range of 30 to 55 percent from 1974 to 1978. Last year

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however, was the third year in a row that the performance had improved; Latin American countries in particular showed major gains in the battle. This year, non-OPEC developing countries--excluding Argentina--will suffer an average 5 percentage point increase in the rate of inflation. One of the hard-hit areas will be East Asia, where rigorous, disciplined monetary management has in the past held inflation in bounds. 25X1

On top of all this, the outlook for debt service is deteriorating, especially for the high- and middle-income developing countries. After striving to press their exports, these countries managed to bring debt service ratios down in 1976 to the levels that prevailed before the oil crisis of 1973 and 1974. Last year, however, slow export growth, coupled with the impact of larger repayments to private lenders abroad, meant that debt service rose again, a pattern likely to repeat this year. 25X1

Most of the debt pressure has thus far been faced by only a handful of countries. In the high-income group, Mexico, Argentina, Brazil, and Chile confronted rapidly rising debt-service ratios last year. In the low-income group, debt-service ratios were not badly out of line with the pre-1973 era. In the middle-income group, however, there is a more generalized problem. 25X1

Given current economic conditions, the strategy of funding payments deficits by large-scale private borrowing that trades off future growth against current needs cannot be sustained indefinitely. Average reserve holdings by developing countries and their growth rates will turn down more sharply if OPEC continues to raise the price of oil. 25X1

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